

5-1976

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Recommended Citation

Strain, J. Robert, "Combining Agricultural Cooperatives- Some Notes On Procedures And Alternatives" (1976). *Economic Staff Paper Series*. 148.

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Combining Agricultural Cooperatives- Some Notes On Procedures And Alternatives

Abstract

Unification of two or more cooperative operations may be accomplished by acquisition of the assets, liabilities and member equity of one organization by another; by merger of one organization into another; or by consolidation of both organizations into a new organization. The major purpose of a unification is to combine memberships, member business and member investments to form a larger, stronger association of farmers. The end results as far as name, wording of the articles and by-laws, board size, method of representing members and capital structure can be the same regardless of the unification method used.

Disciplines

Agribusiness | Behavioral Economics | Organizational Behavior and Theory | Regional Economics

COMBINING AGRICULTURAL COOPERATIVES -
SOME NOTES ON PROCEDURES AND
ALTERNATIVES

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No. 35

May, 1976

Combining Agricultural Cooperatives - Some Notes on Procedures & Alternatives

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Unification of two or more cooperative operations may be accomplished by acquisition of the assets, liabilities and member equity of one organization by another; by merger of one organization into another; or by consolidation of both organizations into a new organization. The major purpose of a unification is to combine memberships, member business and member investments to form a larger, stronger association of farmers. The end results as far as name, wording of the articles and by-laws, board size, method of representing members and capital structure can be the same regardless of the unification method used. These depend upon the agreement worked out between the two parties. Items for agreement include the following:

Name. Should one of the existing names be retained, or shall the articles be amended to show a new name? Usually, if the name of a town, county or other geographic location in an existing name does not apply to all members of the unified organization, then the name should be changed. This is both for acceptability of the name among all the members and for accuracy of the name as a description of the organization.

Permanent Board. What should be the size of the new board after the unification is completed? How should board members be nominated and elected? Should they be nominated at large or by districts? Should nominees be voted upon by the entire membership, or by districts? Usually, in smaller cooperatives of a couple hundred members or so, nominations are made from the membership at large and voted upon by the entire membership. For larger cooperatives, the trade area may be districted with nominees being required to live within the district for which they are being nominated. The purpose of districting is to assure that board members are scattered geographically over the entire membership

area. This may be an especially desirable provision when unifying two or more cooperative memberships to assure that all geographic areas of the previous organizations will continue to be represented on the surviving board, although some organizations prefer districting for purposes of restricting the area of nomination to a size where there is some chance that the members in the area will know the person being nominated. Usually, in the case of districting, there will also be one or more board positions to be elected at large. Nominees whether by district or at large, are usually submitted to the entire membership for vote. However, very large organizations may have elections by district with notification by the entire memberships, or other more complex board structures and voting arrangements.

Another question to be resolved concerns the number of terms a person may serve. Some organizations will permit a man to be elected for two or three terms, then make him ineligible for re-election for one year. Other organizations permit a man to be re-elected for as often as the membership will vote for him. The reasons for limiting terms include; (1) an easy and honorable way of dropping a man from the board who is a nice guy that you don't want to hurt but is getting too old or for some other reason is not providing the leadership and direction desired, and (2) a way of getting more members intimately acquainted with the organization by serving some time on the board. The strongest reason for not limiting terms is the length of time it takes a man to become well enough acquainted with his organization to be effective in developing ideas and making decisions. In other words, limiting the number of terms a director can serve before dropping off the board does not facilitate continuity in direction or decision making.

Interim Board. The board arrangement to serve until the first election of the membership of the newly unified organizations may not be the same as the arrangement agreed to for the permanent board. The three most common interim

board arrangements have been (1) continued service of all existing board members of the organizations being combined until the first election.

(2) In some cases, one board may continue with other members of other boards sitting in as advisory members. (3) By some systematic agreement or arrangement (such as drawing straws) certain members of both boards resign until there are only the number left that was agreed upon for the permanent board.

A fourth variation that has been tried requires three years to move from the interim board to the permanent board arrangement. In this case, both organizations had seven-man boards, three-year terms, and one-third of the terms expiring each year. The permanent board arrangement that was agreed upon was the same: seven-man board, three-year terms, and one-third of the terms expiring each year. For the interim, all existing board members were to continue to serve on the board until their term in the preceding organization would normally expire. At that time, all persons whose term is expiring would be eligible for nomination and election to the number of positions available that year on the permanent board. The next year another third of the board members from the previous organization would have terms that would normally be expiring if they were still in their separate organizations, and these would then be available for nomination to and election to the limited number of positions available that year on the permanent board. And in the third year, the final third of the board positions would be expiring and these members then would be available for nomination to and election remaining available permanent board positions. In this manner, a double size board at the beginning of the unification of two cooperatives would gradually be reduced in size until the third year would be down to the agreed upon permanent board size.

Capital Structure. In Iowa, most marketing cooperatives are non-stock cooperatives while most of the elevator and farm supply cooperatives are stock

companies. There are two parts to decisions on capital structure. One is, what structure do we want to establish in the new or surviving organization. The other is, how shall capital credits in the existing organizations be transferred to the new structure of the surviving organization. The natural inclination is to try to transfer existing capital classifications into the new organization. However, this is the ideal time to set up the structure desired or deemed most desirable and then make the previous capital allocations fit the new or more desirable structure. This is usually done by paying off old allocations, stock, revolving funds and so forth of members of prior organizations with stocks or certificates in the class of capital desired for the new organization.

Articles and By-Laws. When reorganizing, new articles usually have to be filed with the Secretary of Agriculture, if for no other reason than to change the capital structure of stock authorization. If this is the case, then this becomes an ideal time to review articles and by-laws completely and make any and all desired changes at the same time. Another question that might want to be considered concerns which law is most suitable for the new unified cooperative. In Iowa, the law may be the Chapter 499 cooperative law or new articles might be filed under the general corporation law. What is permitted and what is required differ between the two laws, but the membership can continue to operate jointly owned business as a cooperative under either law.

Fiscal Year. Among other things that need to be agreed upon and usually changed at least for one of the previous organizations, is the fiscal year. Board members usually rely upon the advice of their managers and managerial staff for the most desirable fiscal year for their particular type of organization.

Manager. Fairly early in proceedings, some agreement should be reached concerning the managers of the organizations considering unification. In most cases, one of the existing managers is retained as a general manager over the unified organization. Other manager or managers of previous organizations may become branch managers if the organizations have branches, or assistant managers if the organization is large enough to need one or more assistants, or relocate in another organization. For purposes both of assuring assistance and support by existing managers and for common courtesy and elimination of uncertainty in the minds of existing managers, the anticipated management structure of the new unified organization should be determined and the people to be asked to fill the positions in that structure should be ascertained.

Method of Unifying. After the structure of the new organization has been agreed upon, then is the time to make the decision about method of combining organizations. All of the three methods, acquisition of the assets, liabilities and member equity of one organization by another is the simplest. The acquiring association is the surviving association. In effect it purchases a business of the association being acquired. It becomes a new owner of the assets and assumes responsibility for the liabilities and member equity subject to the terms of the purchase agreement. Usually, payment for member equity obligations acquired in this manner are made in the form of evidence of equity in the surviving association rather than cash.

Merger is a more formal method of combining organizations. In a merger, the assets, liabilities and member equity of one organization is merged into another organization which becomes a surviving organization. In some people's minds, a formal and legal merging of a prior organization into the surviving organization is more acceptable than just being "bought out."

Consolidation is the eliminating of both prior organizations to form a brand new organization. This is the most complex and time consuming method of

combining organizations, but in instances where members or communities have strong feelings against one organization surviving over another organization, consolidation is the most acceptable answer. In this case, member equity obligations acquired by the branch new organization are paid for with evidences of equity in the brand new organization.

Either of the three above methods of unifying organizations can result in the same thing: one organization with one membership represented by one board of directors. The purpose of combining the organization was to combine membership, member business and member capital to form a larger, stronger association. Either of the three methods of combining organizations can accomplish this. Failure to do so generally is not the result of the method used in combining organization, but rather, failure to develop and implement a unification proposal containing adequate provisions for capital structure, board structure, member representation, and methods of transferring prior organizations assets, liabilities and member equity into the new unified cooperative.